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We appreciate the opportunity to offer these comments for the consideration of the Joint Board members. It is a privilege to appear here today with a Cabinet Secretary, a U.S. Senator, and the other distinguished panelists and offer input on these important universal service issues.

In this important proceeding for rural customers, the decisions that will be formulated by the Joint Board and then adopted by the Commission have far-reaching impacts on our nearly 600 customers that are dispersed over our 550 square mile service territory. My hope is that their needs are not cast aside as we transition "to provide for a pro-competitive, deregulatory national policy framework designed to accelerate rapidly private sector deployment of advanced telecommunications and information technologies to all Americans." [1]

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[1] S. Conf. Rep. No. 104-230, 104th Cong., 2d Sess. 1 (1996).

I. ANY EXPLICIT FUNDING MECHANISMS FOR THE DISTINCT UNIVERSAL SERVICE NEEDS OF HIGH-COST AREAS; SCHOOLS AND LIBRARIES; HEALTH CARE; AND LOW INCOME CUSTOMERS SHOULD BE SEPARATE AND DISTINCT.

KATCO believes it would be advisable to develop separate and distinct universal service funding mechanisms for each of the four needs noted above as each will be different from a definitional, and quite possibly a provider perspective.

- Definitional Issues

KATCO supports a service offering package that should initially be considered as the definition of universal service that includes: voice grade access to the public switched network that permits a residential or business customer to place and receive calls, via single-party, touchtone (DTMF) service; white page directory listing; access to directory assistance, operator, and emergency services. We submit that such a definition meets the criteria found in Sec. 254(c)(1). States should be permitted to expand this definition if they are willing to provide funding sources.

With respect to service to schools, we encourage policy makers to carefully evaluate who pays for the entire cost of service in the quest for educational equality. The communications path(s) itself from the school to the public switched network is a small percentage of the total cost when one considers the requisite hardware, software, and training concomitant to the desired offerings.

• Different Markets, Different Menu of Providers

There may well be more interest in serving a school, for instance, than a customer at the border of the existing service boundary. [Certificated service territory may well become a difficult Trivial Pursuit answer three decades from now.]

Along the same line, we doubt that there will be multiple providers in traditional low-income service areas.

We believe that separate funds for each targeted group will be simpler to administrate and increase the probability that each fund will meet its public policy objectives

II. ALL PROVIDERS OF COMMUNICATIONS SERVICES SHOULD CONTRIBUTE TO ALL EXPLICIT UNIVERSAL SERVICE FUNDING MECHANISMS.

With respect to the language found at paragraph 119 of the NPRM, we recommend that the Commission and Joint Board "impose universal service support obligations more broadly, as Section 254(d) of the Act authorizes..." We believe that this is necessary to comport with the Act's Section 254(b)(4) that specifies all providers should make an equitable and nondiscriminatory contribution to preserve and advance universal service.

We recommend that as an initial starting point that the Commission and Joint Board consider applying the TRS model for universal service funding that would include as payors, but not be limited to: LECs, IXCs, RHCs (electric or gas), cellular telephone and paging companies, personal communications services, resellers, 900 services, and satellite and video companies.

We further assert that any exemptions to a carrier or class of carriers should be the exception. For example, a class of carriers such as Registered Holding Companies that include 13 electric utilities and 2 gas companies represent over $46 Billion of annual operating revenue, and almost $132 billion in consolidated assets according to 1994 FERC statistics. These well-capitalized new entrants should not be entitled to any exemption, as it would indeed be absurd to exempt such a group from their universal service obligation.

III. THE COMMISSION AND JOINT BOARD SHOULD CONSIDER AN APPROPRIATE TRANSITION PERIOD IN ORDER TO AMELIORATE THE RATE IMPACT ON HIGH COST CUSTOMERS.

Competition makes it at best problematic to sustain the current implicit subsidies that have served to recover the true cost of providing service in high-cost areas of our country. KATCO's service area is one of these high-cost areas - as we have some customers that are over 35 miles away from the central office. We trust that public policy will continue to enable affordable service to be provided to such customers.

At present, KATCO customers pay a R-1 rate of $11.50, which is near the state average. However, our rural customers currently realize a benefit of $50.52 per month[2] from the existing Universal Service Fund and DEM support mechanisms.

We recommend that the Commission and Joint Board consider a five-year transition period for companies with less than 10,000 access lines related to revenue deficiencies that may result from any changes to existing universal service support mechanisms.

[2] USF benefit of $18.53; Weighted DEM impact of $31.99

IV. ANY AFFORDABILITY BENCHMARK SHOULD REFLECT AT LEAST REGIONAL, IF NOT STATE-SPECIFIC OR PREFERABLY LOCAL CONDITIONS.

As the Commission has incorporated the prior record from the CC Docket No. 80-286 proceeding, the concept of affordability benchmarks is a part of this instant proceeding. KATCO endorses the concept of an affordability benchmark.

We recommend that any affordability benchmark concept adopted disaggregate income to a study area basis. Thus, the costs of providing core universal services incurred by eligible carriers that exceed the benchmark would be considered as high cost and produce unaffordable rates. The benchmark should also reflect calling scope differences between rural and urban areas.

For example, using a benchmark of one percent of the national median income would create a benchmark of $28 per month[3]. In some regions of the country, one percent of median income would be substantially lower than $28. Further, given that Americans spend on average roughly 2 to 2.5 percent of income on total telecommunications services, consideration should also be given to recognizing the proportionately higher toll volumes necessary for rural customers to obtain goods and services.

[3]FCC Trends in Telecommunications, May 1994, Table 8 at p.13

V. IN A COMPETITIVE TELECOMMUNICATIONS ENVIRONMENT, IT IS INDEED REASONABLE FOR REGULATORS AND PUBLIC POLICY MAKERS TO EXPECT THAT ANY RECIPIENTS WILL BE ABLE TO MEET CERTAIN CRITERIA.

We are concerned about the actual specifics of how such rules would be implemented in the very political intrastate regulatory arena. Those concerns aside, however, we cannot argue plausibly against the provisions of Section 254(k) that calls for the Commission "with respect to interstate services. . . and the states with respect to intrastate services, ... [to] establish any necessary cost allocation rules, accounting safeguards, and guidelines to ensure that services included in the definition of universal service bear no more than a reasonable share of the joint and common costs of facilities used to provide those services."

In rural areas, we recognize that multiple carriers will only be permitted if the public interest test is met. If so, those carriers should be required to receive support based upon their own costs. Or in the alternative, rural companies should also have the option "to deaverage" cost data if used for support calculation to prevent creamskimming and arbitrage by new entrants.

We will review with interest the comments filed and address these cogent issues in more detail in the reply phase of the proceeding.